

IPA III and Kosovo: How to react in order to remain competitive in the region?

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INTRODUCTION

The European Union has been allocating specific financial aid to candidate and potential candidate countries since 2007, in the form of the Instrument for Pre-Accession Assistance (IPA) tool of external action. With the aim of best preparing beneficiary countries for eventual membership, IPA funds seek structural political and economic reforms to development standards and citizens' opportunities to those of the EU27 countries. EU pre-accession funds are therefore promoted as solid commitment to progress in the envisaged enlargement countries and in the EU itself. In betting on future Member States, IPA funds also bet on sustainable EU cohesion and optimized absorption of the rights and obligations linked to full-fledged membership to the political, economic and social union.

IPA funds have been delivered consecutively across several multiannual financial frameworks insofar, and most recently its third and latest iteration was launched – the Instrument for Pre-Accession Assistance III corresponding to the 2021-2027 period. This Policy Analysis breaks down the new IPA III looking at the previous IPA I and II, and by detailing the objectives and deliverables of the present iteration. We then zone in on the particular case of Kosovo, by seeing where the IPA III fits among the many ongoing processes and acting instruments for EU integration, and how Kosovo compares to other neighboring countries and sectors' performance vis-à-vis IPA aims.

Finally, the Analysis delves deep into recommendations on which are the sectors Kosovo should focus as beneficiary country, which IPA elements imply improvements by the EU as donor and, perhaps most importantly, how recommendations for the Kosovar government to optimize its absorption of funds and sustainability progress key areas in need.

I. From the Instrument for Pre-Accession Assistance I To III, and the Terminology Obstacle

The European Union has long dedicated special funding to enlargement efforts, be it at a regional level or at a national level to honor the stronger ties to candidate and potential candidate countries. Dedicated pre-accession fund work both as an investment in future members, as well as a long-term investment in EU cohesion itself. The objective of the Instrument for Pre-Accession Assistance is to support country beneficiaries in adopting the political, institutional, legal, administrative, social and economic reforms required to comply with the rights and obligations of full EU membership. Pre-accession funds also help the EU reach its targets on sustainable economic recovery, energy supply, transport, environment, and digital transformation, in working with neighboring partners and future members of the Union. In turn, such reforms are expected to boost growth and development nationally, as well as offer citizens better opportunities and standard of living.

The Instrument for Pre-Accession Assistance (IPA)¹ is a financial instrument created by the EU to assist countries with membership aspirations. When it comes to EU external aid, this particular

¹ European Commission, *ANNEX to the COMMISSION IMPLEMENTING DECISION amending Commission Decision C(2014)5772 of 20.8.2014 adopting the Indicative Strategy Paper for Kosovo for the period 2014-2020*, 10 August 2018,

instrument dates back to 2007, when different EU programmes and financial instruments (i.e., PHARE, PHARE CBC, ISPA, SAPARD) were encompassed under a single instrument and legal framework named the **Instrument for the Pre-Accession Assistance (IPA)**. The **first installment ran from 2007 to 2013 (IPA I)** and provided financing through five components²: Transition Assistance and Institution Building, Cross-Border Cooperation, Regional Development (i.e., support to transport, environment infrastructure, enhancing competitiveness, reducing regional disparities), Human Resources Development (i.e. strengthening human capital and combating exclusion), and Rural Development.

Eligible countries, dubbed IPA beneficiary countries, are all EU candidate countries and potential candidate countries. In other words, the six Western Balkan countries and Turkey, with the caveat that Kosovo and Bosnia and Herzegovina, as potential candidates, are eligible only for the first two components. Kosovo and the EU agreed on the Financial Agreement on the Instrument for Pre-Accession in 2018 and signed it in February 2019. This relationship is quite significant seeing as Kosovo is the largest regional per capita beneficiary when it comes to this umbrella instrument. Under the IPA I, Kosovo received EUR 636 million³.

The next multiannual programming period, **2014-2020, saw the second installment of the IPA take flight, IPA II**, as the continuation of the preceding programme. IPA II had a financial envelope of €12.8 billion in current prices, of which €562 million of bilateral financial assistance allocated to Kosovo⁴. That sum sought to cover the following priority sectors: Democracy & governance; Rule of law & fundamental rights; Energy; Competitiveness & innovation; Education, employment & social policies; Agriculture & rural development; Regional and territorial cooperation⁵. As the 2021 Kosovo Country Report reads, “The assistance is implemented under direct management by the EU Office in Kosovo, as well as through budget support operations on public administration reform, public financial management and on support to Kosovo’s socio-economic recovery”⁶.

As the new multiannual financial framework (2021-2027) came, the EU put forth a proposal to once more **continue external aid under the Instrument for Pre-Accession Assistance, this time with a third iteration, the IPA III**. The EU formally adopted the new Instrument for Pre-accession Assistance for the 2021-2027 period on 15 September, following the Council’s positive decision on 7 September. It applies retroactively from 1 January 2021, and amounts to a total financial envelope of EUR 14.2 billion in support of implementing key political, institutional, social and economic reforms in candidate and potential candidates. DG NEAR Commissioner Olivér Várhelyi highlighted that the “IPA III is definitely an investment into the future”⁷.

When putting forth a legislative proposal for a regulation **establishing the Instrument for Pre-accession Assistance (IPA) III for the period 2021-2027**, the European Commission defined the following key elements as fundamental when proposing and implementing the new, or rather the

available at: <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180817-revised-indicative-strategy-paper-2014-2020-for-kosovo.pdf>.

² European Commission, “Funding - How IPA works”, no date, available at: https://ec.europa.eu/regional_policy/en/funding/ipa/how/ [Accessed 1 December 2021].

³ European Court of Auditors, “Special Report - EU pre-accession assistance for strengthening administrative capacity in the Western Balkans: A meta-audit”, 2016, pg.10, available at: https://www.eca.europa.eu/Lists/ECADocuments/SR16_21/SR_WESTERN-BALKANS_EN.pdf.

⁴ DG NEAR, “Kosovo - Financial Assistance under IPA II”, December 2019, available at: https://ec.europa.eu/neighbourhood-enlargement/instruments/funding-by-country/kosovo_en.

⁵ European Commission, “INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020”, available at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/ipa_ii_2018_040-113.04_mc_eu_integration_facility-eu_agencies.pdf.

⁶ European Commission, “COMMISSION STAFF WORKING DOCUMENT Kosovo* 2020 Report”, 6 October 2021, pg.108, available at https://ec.europa.eu/neighbourhood-enlargement/system/files/2020-10/kosovo_report_2020.pdf.

⁷ Danube Region Strategy, “IPA III finally adopted”, no date, available at: https://danube-region.eu/ipa-iii-finally-adopted/?utm_source=rss&utm_medium=rss&utm_campaign=ipa-iii-finally-adopted [Accessed 1 December 2021].

continued, assistance to candidate countries⁸. Firstly, there is a need to align the IPA III with the priorities set in the February 2018 Western Balkan enlargement strategy, which already precluded a merit-based approach and elevation of fundamentals. Secondly, since some candidate countries may accede within this multiannual financing period (until 2027), IPA funds must be secured to support a gradual transition from pre-accession status to membership. Finally, a principal reason justifying the IPA III legislative proposal is that the IPA II is still being implemented and continuity must be ensured, especially after many funds were redirected after the pandemic outbreak.

Citing the 2021 Kosovo Country Report from the European Commission, we know that EU COVID-related assistance to Kosovo amounted to EUR 68 million (EUR 5 million for urgent medical equipment and EUR 63 million for socio-economic recovery measures)⁹. Furthermore, “the IPA III Regulation for the 2021-2027 financial period will continue to provide financial support to the region and will also finance the Economic Investment Plan (EIP) for the Western Balkans, (...) to spur the long-term economic recovery of the region, support a green and digital transition, and foster regional integration and convergence with the EU”¹⁰. **In line with this, the IPA III goes further and takes on new challenges, such as security, protection of the environment and climate. Looking particularly at Kosovo vis-à-vis the third IPA programme, the main challenges for the country remain the rule of law, bilateral disputes and ensuring a competitive market. On the other hand, opportunities the new programme fosters for Kosovo is the opening to increase synergies with EU internal policies on migration, research and innovation, environment and climate action, transport and energy connectivity.**

Nonetheless, in addition to the above challenges and opportunities, when it comes to Kosovo specifically, the adoption of the IPA III came with an additional challenge; or, more so, a reminder that the newborn country faces added obstacles than its neighboring states. When reading the Regulation text, **the terminology used to name the beneficiary countries evidently singles out Kosovo in a negative light.** The previous practice for Regulations on the Western Balkans and/or candidate and potential candidate countries was to not use the constitutional name, meaning that countries would be named as¹¹: Albania, Serbia, Montenegro, Kosovo, etc. This meant all countries were on an equal standing, despite the usual inclusion of an asterisk after Kosovo’s name, noting that “This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence”. In the IPA III Regulation text, however, the countries names used and approved included the constitutional names, with the inclusion of “Republic of”. This means that, in the IPA III formal text, beneficiary countries are instead named as, for instance¹²: The Republic of Albania, The Republic of Serbia, The Republic of Montenegro, Kosovo.

It was the first time in EU law or regulation that such a differentiation occurred and it does not bode well in Kosovo’s favor. The newborn country, independent since 2008, continues to be on the bad end of the EU-hopefuls stick. This means that until Kosovo is represented with the asterisk caveat, it will apparently never have equal standing in EU regulations’ writing to its

⁸ European Union, “Proposal For A Regulation Of The Ep And The Council Establishing The Instrument For Pre-Accession Assistance (Ipa Iii) Com(2018) 465, 20 November 2021, <https://www.europarl.europa.eu/legislative-train/theme-new-boost-for-jobs-growth-and-investment/file-mff-ipa-iii> [Accessed 1 December 2021].

⁹ European Commission, “COMMISSION STAFF WORKING DOCUMENT Kosovo* 2020 Report”, 6 October 2021, pg.108.

¹⁰ *Ibid*, pg.108.

¹¹ European Union, “Regulation (EU) No 231/2014 of the European Parliament and of the Council of 11 March 2014 establishing an Instrument for Pre-accession Assistance (IPA II)”, 15 March 2014, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014R0231>.

¹² European Union, “Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-Accession assistance (IPA III)”, 20 September 2021, available at: <https://eur-lex.europa.eu/eli/reg/2021/1529>.

neighboring countries. The impact this has on Kosovo's international recognition diplomacy and efforts is immense, and should be further discussed with EU high-level authorities to avoid further damage in forthcoming regulations or laws.

II. Taking stock of Kosovo's ongoing EU integration instruments and processes

As a potential candidate country to join the European Union, the Republic of Kosovo faces a surmount of targets to achieve on matters of overall reform, democracy, human rights and market economy to fulfill the accession criteria. Much like the other five candidate or potential candidate countries in the region – Serbia, Montenegro, North Macedonia, Albania, and Bosnia and Herzegovina – Kosovo must deliver on political and economic with a clear European perspective to keep benefitting from EU funding and assistance and, eventually, full-fledged membership following accession negotiations. To grasp the big picture of what the IPA III means for Kosovo, this chapter lays out how it figures among other ongoing or concluded instruments for accession.

At the core of the Stabilization & Association Process (SAP) is the **Stabilization and Association Agreement (SAA)**¹³, which entered into force in 2016 as the first contractual relationship between the EU and Kosovo. The SAP defines the policy framework for relations between the EU and the Western Balkans, preparing the countries for eventual accession and encouraging regional cooperation. In turn, the SAA provides for each country a framework for political dialogue and covers cooperation in a wide variety of sectors and policy areas (i.e. justice and home affairs, trade, education, employment, energy, environment). The Agreement lays bare political and economic objectives on what is expected on issues such as strengthening judicial systems, promoting human rights, bolstering democratic institutions, improved product standardization for competitiveness, and support for a market-oriented economy and investment climate.

As set in Article 74 of the Agreement, the SAA is materialized in the **National Program for Implementation of the Stabilization and Association (NPISAA)**¹⁴, a legally-binding national strategy for relevant governmental and institutional bodies for implementing SAA targets - most notably the need to align Kosovar legislation with EU *acquis*. A Ministry of European Integration, the responsible monitoring body, recent report dated showcases important data - "the Programme was implemented at a rate of 20.51%: 8 out of 39 measures planned for this quarter have been fully implemented, while 31 of them (79.49%) have not yet been fully implemented"¹⁵. Unimplemented measures mainly include the adoption of certain draft laws, amendments or regulations, and the approval of strategies and action plans for varied sectors. Breaking it down into the 3 priority areas (blocks), the November 2019 report showcases a 100% implementation rate for the Economic Criteria, but a lower one for the Political Criteria (66.67%) and the European Standards (82.86%). The latter two are, therefore, high priority areas in need of swift reaction and heightened execution.

¹³ Official Journal of the European Union, *STABILISATION AND ASSOCIATION AGREEMENT between the European Union and the European Atomic Energy Community, of the one part, and Kosovo, of the other part*, March 2016, available at: [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22016A0316\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22016A0316(01)&from=EN)

¹⁴ Republic of Kosovo, Ministry of European Integration - National Program for Implementation of the Stabilisation and Association Agreement– NPISAA, available at: <http://mei-ks.net/en/national-program-for-implementation-of-npisaa>.

¹⁵ Republic of Kosovo, *Report on Implementation of the National Programme for Implementation of the Stabilisation and Association Agreement (NPISAA) during July-September 2019*, November 2019, pg. 4, available at: http://mei-ks.net/repository/docs/3_raporti_mbi_zbatimin_e_pkzmsa-se_korrik-shtator_2019_final_publ_eng.PDF.

Another key EU integration document also linked to the SAA and in force since 2016 is the **European Reform Agenda (ERA)**¹⁶, now in its second phase (ERA 2). The document takes stock on SAA-implementation priorities, as defined between the Government of Kosovo and the European Commission. A total of 22 objectives across three priority areas were agreed: Good Governance and the Rule of Law, Competitiveness and Investment Climate, and Education and Employment. According to independent monitoring reports, overall implementation has been very weak - 68.8% for the first area (highest achievement rate), 32.9% for the second, and finally 21.9% for the Employment and Education priority area.

The 2019-2021 **Economic Reform Program (ERP)**¹⁷ is also part of Kosovo's current EU integration framework, in matters of economic governance. It is drafted by the Ministry of Finance and concentrates on structural macroeconomic and fiscal reforms for competitiveness and inclusive growth, which boost growth and quality of life. The final objective is to bring the country closer to the Copenhagen economic criteria which serve as basis for EU economic policy and, evidently, closer to accession. This program has two priority targets, citing the document: a rules-based fiscal policy and structural reforms supporting the competitiveness of economic sectors. Yet it faces varied challenges, such as lack of Foreign Direct Investment to boost industry, unfair business competition from the informal sector and lack of supporting legal framework or public/private investment promoting digitalization.

Finally, the European Commission publishes an **annual Country Report for Kosovo** to take stock on progress (achievements or under-achievements) during the 12-month reporting period at hand. The latest report, dated 19 October 2021, notably notes the immense political instability on Kosovo during the reporting period, which limited legislative activities, including EU-related reform efforts such as concerning public administration. Notwithstanding, the new Albin Kurti government has since reassured the EU of the country's commitment to reforms by endorsing the ERA 2 and its respective action plan in October 2021.

As expected, the situation in the north of Kosovo remains the most pressing, namely in terms of corruption, organized crime, and the conditions for freedom of expression. Regardless, corruptions runs rampant nationwide and only limited effort is reported in investigating and prosecuting high-level cases. On the human rights realm, formal guarantees are lauded yet actual implementation is lacking, and therefore the report recommends improved coordination and enhanced oversight of fundamental rights policies and legislation. The economic criteria, the development of a functioning market economy also reported limited progress. The pandemic's recession impact did not make things easier, especially given Kosovo's "long-standing structural problems, such as the lack of economic diversification and the dependence on financial flows from the diaspora"¹⁸. Lastly, on the good neighborly relations and regional cooperation realm, the Dialogue on the normalization of relations with Serbia remains stalled (and often hostile), with high-level meetings appearing as a box-ticking exercise more than real progress towards mutual state recognition.

¹⁶ Republic of Kosovo, *Kosovo–EU High Level Dialogue on Key Priorities – European Reform Agenda (ERA)*, November 2016, available at: https://www.mei-ks.net/repository/docs/era_final.pdf.

¹⁷ Republic of Kosovo, *ECONOMIC REFORM PROGRAMME (ERP) 2019-2021*, January 2019, available at: <https://mf.rks-gov.net/desk/inc/media/4FC9C8D0-8ADF-4DD1-97B8-BB2DD36150C3.pdf>

¹⁸ European Commission, "Press Corner - Key findings of the 2021 Report on Kosovo, 19 October 2021, available at: https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_5278.

III. Breaking down the IPA III and Comparing neighboring countries and sectors

The new Instrument for Pre-Accession Assistance III, devised for the multiannual financing period of 2021-2027, is lauded as more policy-driven and with a more strategic and dynamic deployment of assistance. Much like the approach of the EU Enlargement Strategy, also the IPA III **puts the “fundamentals” first**. In other words, at the core of the financial assistance to candidate and potential candidate countries is consolidating the rule of law and respect of human rights, strengthening democratic institutions and public administration, and promoting economic governance reforms towards competitiveness. Digging deeper, the rule of law fundamental encompasses migration, strengthening security cooperation, and the prevention of preventing radicalization and organized crime, the second fundamental, the democratic governance fundamental targets EU policies and *acquis* as well as socio-economic development, and the economic fundamental implies investments for growth and enhanced leveraging of funds. Finally, a further fundamental for pre-accession progress entails good neighborly relations and cross-border cooperation. In parallel to enhancing fundamentals, IPA III also increased reliance on country-led strategies, which boosts greater local ownership of reforms and progress¹⁹. IPA III puts fundamentals first – which is aligned with the **Copenhagen accession criteria** defined by the EU for new Member-States. The Copenhagen criteria underline European fundamental values, and read as follows²⁰: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities; a functioning market economy and the ability to cope with competitive pressure and market forces within the EU; the ability to take on the obligations of membership, including the capacity to effectively implement the EU *acquis* and adhere to the aims of political, economic and monetary union.

In line with this, the third installment of the pre-accessing assistance instrument is guided by thematic priorities rather than country financial envelopes, which allows for a more strategic take on policy areas' progress and a more dynamic take on evolving needs of the partner country, from pre-accession to bringing it closer to eventual membership. In order to ensure partners, have access to the full EU toolbox, the terms imply **coherence and complementarity** between IPA III and the new Neighborhood, Development and International Cooperation Instrument (NDICI)–Global Europe fund (in the amount of almost EUR 80 billion). The EU intends to build off “more synergies with a wide range of EU internal policy programmes to maximize impact on key priority sectors such as security, migration, research and innovation, environment and climate action, transport and energy connectivity”²¹. Only through increased coherence can impact be greater. For this reason, not only is complementarity with the NDICI-Global Europe fund crucial, but also with the socioeconomic recovery efforts the EU has channeled into Kosovo and its Western Balkan neighbors to mitigate Covid-19 effects and support building back better. Such a bet on complementarity is a novelty the third IPA installment brought. All things considered, the overall objective of IPA III is long-term stability and prosperity for all countries, which in turn benefits the EU itself as well.

The bigger focus on coherence and complementarity among EU tools is especially important for Kosovo. The Kosovar government has shown a lacking capacity to absorb external aid and, moreover, benefits from various instruments and tools of EU external assistance in light of its often-lagging development status among other countries in the region. For reference, the **EU remains the largest provider of financial assistance to Kosovo: EUR 1.21 billion in EU**

¹⁹ European Commission, “Factsheet – the Instrument for Pre-Accession Assistance (IPA III), October 2021, available at: <https://ec.europa.eu/neighbourhood-enlargement/system/files/2021-10/IPA-factsheet-2021.pdf>.

²⁰ European Union, “Glossary - ACCESSION CRITERIA (COPENHAGEN CRITERIA), no date, available at: https://eur-lex.europa.eu/summary/glossary/accession_criteria_copenhagen.html [Accessed 4 December 2021].

²¹ *Ibid.*

assistance funds (2007-2020), EUR 280 million provided in European Investment Bank loans since 1999, and EUR 198.7 million provided in Western Balkans Investment Framework grants since 2009, to leverage investments of estimated €1.8 billion²². EU efforts in Kosovo seek to bring it closer to EU standards, enhance connectivity, support structural democratic and sectoral reforms, and overall empower the national and local authorities to take ownership of necessary reforms for long-lasting progress.

Considering partner countries' policy on aid absorption, shortcomings are noted in all of the six Western Balkan states, as well as room for improvement at the EU management level. For **comparison purposes, we will look at the case of Albania, Serbia and Kosovo as beneficiaries of IPA funds** and general EU assistance dedicated to pre-accession support in the region.

A 2016 Special Audit Report on *EU pre-accession assistance for strengthening administrative capacity in the Western Balkans* states that, in the 2003 to 2015 period, "EU pre-accession assistance was broadly effective and partly strengthened administrative capacity in the region, despite considerable shortcomings inherent to the national authorities in the Western Balkans"²³. Weak administrative capacity notably hampered absorption rates in the rule of law sector, and "beneficiaries' lack of political will to reform institutions, insufficient budget and staffing, as well as poor coordination also affected project sustainability"²⁴ on in key areas such as media freedom, public prosecution and the fight against corruption and organized crime. On the other side of the coin, at the EU level, the Special Report notifies that IPA "objectives were not always specific and measurable. (...) The absorption of IPA funding was hampered (...) in the case of decentralized implementation, strict requirements linked to the management of EU funds"²⁵.

As part of IPA I, **Albania** received EUR 509 million from the EU, and EUR 649.4 million as part of IPA II, with the Democracy and Governance field (i.e. public finance management reform, public administration reform, EU integration facility) receiving the biggest share of funds (33%)²⁶. An academic paper analyzing the *Effectiveness on the Use of IPA Funds in Albania Covering the Period 2014-2016* shows that Albania's foreign financing portfolio in Albania during this period amounted up to EUR 5.29 billion - of which EUR 1.29 billion worth in projects are completed, EUR 2.85 billion are ongoing, and EUR 1.15 billion are still in the planned status²⁷. For the same time period, the five biggest multilateral development partners (amounting to 58% of total assistance) were the World Bank, the EU, the Islamic Development Bank, the IMF and the European Bank for Reconstruction and Development²⁸. The paper argues that the "financial aid provided by EU has not had any spectacular successes to demonstrate", notwithstanding achievements in the field of public administration reforms, justice, environment and transport.

Albania's low absorption capacity of IPA funds is very much linked to governmental bureaucratic obstacles and a lack of knowledgeable staff to ensure the implementation and sustainability of projects. For this reason, the project design must be strictly linked to a real need to better prompt effective implementation reaction from personnel, and regular monitoring

²²European Commission, "Kosovo on its European path", October 2021, available at: https://ec.europa.eu/neighbourhood-enlargement/system/files/2021-10/18102021_factograph_kosovo.pdf [Accessed 4 December 2021].

²³ European Court of Auditors, "Special Report - EU pre-accession assistance for strengthening administrative capacity in the Western Balkans: A meta-audit", 2016, pg.6.

²⁴ *Ibid*, pg.7.

²⁵ *Ibid*, pg.6.

²⁶ Kepi, J. (Himci). (2018). Effectiveness on the Use of IPA Funds in Albania Covering the Period 2014-2016. *European Scientific Journal, ESJ*, 14(31), 191, pg.201.

²⁷ *Ibid*, pg.198.

²⁸ *Ibid*, pg.200.

mechanisms must be mandated at the EU-level or triggered at the national/local level in order to flag and correct shortcomings.

Looking at the national reality in **Serbia**, the country receives a big bulk of IPA funds to the governance priority area, considered “the most challenging area for Serbia”²⁹ by the European Commission. This area includes shortcomings in the fields of justice and home affairs, including the fight against corruption, and public administration reform, including public finance management reform. In parallel, IPA funding for governance and anti-corruption has come to increasingly involve civil society organizations. The 2014 audit report on IPA assistance to Serbia warns that donor coordination must be better and more systematic to avoid overlapping efforts. For instance, in the rule of law sector, an EU-funded judiciary system case management system ran in parallel to another system funded by USAID – ‘the lack of coordination and local ownership with regard to IT issues in the rule-of-law sector is demonstrated by the fact that major IPA IT investments have been implemented without a proper IT strategy’³⁰. Indeed, this shows a lack of local ownership over reforms and progress, arguably taking them as box-ticking exercises to keep donors happy and busy. Another key element to consider is that funds must, therefore, be linked to thorough and updated needs-assessments. Otherwise, actions won’t be prioritized and government authorities are more willing to dismiss them as a box-ticking exercise that looks good on EU annual country reports. The same 2014 report highlighted a ‘Rural development’ project, wherein “40 % of the IT equipment delivered was not used and some of it was still in the paying agency warehouse at the time of the audit visit”³¹.

In terms of national absorption capacity, the 2014 audit report on IPA funds delivered to Serbia noted that “delays occurred in implementing the audited projects, but overall IPA absorption capacity was assessed as good by the Commission”³². Overestimating partners’ capacity to take action on interventions is quite common, and must be worked on across all beneficiary countries. The report goes further in noting that calls for proposals projects, especially those at a municipal level, show a much higher absorption rate of IPA funds and moreover within the designated timeframe, unlike big infrastructure projects.

Jumping now to the **Kosovo** country-case on matters of external aid absorption and national development strategy, similar shortcomings and efforts are visible. For IPA I, the absorption rates the report notes for the six Western Balkan countries is, roughly: 29% for Albania, 27% for Bosnia and Herzegovina, 22% for Kosovo, 28% for Montenegro, 30% for North Macedonia, and 19% for Serbia³³. An important note is to underline that the newborn country’s limited state recognition status at the international and EU level means Kosovo faces an added challenge when it comes to its EU path. Besides having to comply with reforms and harmonization to the EU acquis, it must equally (or arguably more so) face obstacles arising from non-recognition. This renders the country politically and socioeconomically more vulnerable on an overall level which, in turn, hinders absorption rates and implementation capacity. The following chapter digs deeper into reflecting on Kosovo’s absorption capacity of EU assistance, and puts forth concrete recommendations to improve implementation rates of external aid.

IV. Most pressing issues in Kosovo and recommendations

When considering EU regional funds, it is useful to break data down to the national levels to better compare and contrast shortcoming and best practices - often similar and repeated as

²⁹ European Court of Auditors, ‘Special Report - EU Pre-accession Assistance to Serbia’, 2014, pg.5, available at: https://www.eca.europa.eu/Lists/ECADocuments/SR14_19/QJAB14019ENN.pdf.

³⁰ *Ibid*, pg.14.

³¹ *Ibid*, pg.15.

³² *Ibid*, pg.17.

³³ *Ibid*, pg.18.

we saw above, despite natural specificities given the political, human rights or economic reality of the candidate country. After understanding the state of play in terms of external aid absorption capacity and implementation successes or hindrances in Albania and in Serbia, this chapter focuses solely on Kosovo. The paper looks into what are the most pressing issues in Kosovo, how they could benefit from EU money, and recommendations on how to optimize the country's absorption rate of external aid/funds.

1. Pressing Issues

The European Union has designated the post-Covid recovery period as a chance to 'build back better', with an adamant focus on the digital and green transitions and a holistic approach to national and regional development. The same thinking applies to the Western Balkans as a privileged partner region, encompassing candidate and potential candidate countries. The European Parliament resolution of 25 March 2021 on the 2019-2020 Commission Reports on Kosovo emphasized how MEPs "insist that IPA funds are used inter alia to promote the green agenda by reinforcing environmental protection, contributing to mitigation, increasing resilience to climate change, and accelerating the shift towards a low-carbon economy"³⁴. Moreover, the adopted Resolution "Calls on the Commission to focus IPA III funds on the ongoing democratic transition of Kosovo, in addition to infrastructure projects, especially in light of persistent problems with the investment climate, absorption capacity, and environmental standards in Kosovo"³⁵.

A priority area in the implementation of the Stabilization and Association Agreement (SAA) is **Education and Training**. Effective implementation and quality assurance practices are lacking, wherein many new rules or learning tools are constantly being approved yet applied by educators thereafter with little to no context, and one a time instead of a comprehensive education reform. This means students regularly face with new rules each academic year, which harms consistency and does not raise the level of general education and vocational education or promote skills development and employability, as the SAA text demands³⁶. Kosovo shows low inclusion of children in pre-school education due to lacking infrastructure, and even lower inclusion of marginalized groups.

Another issue area in Kosovo is **employment, linked to inclusivity**. To cite the European Reform Agenda (ERA 1), "Kosovo has a very low labor market participation rate oscillating around 40% with stark gaps between men and women"³⁷. Inactivity and unemployment remain chronic problems in Kosovo, in parallel to problematic and informal working conditions and a significant gender imbalance in access to the labor market. Social inclusion and equal opportunities support policies would help reduce poverty levels. The Education and the Employment issue areas matches IPA III's **specific objective or key performance indicator**: "to strengthen economic and social development and cohesion, with particular attention to youth, including through quality education and employment policies"³⁸.

Ensuring a **competitive market economy with positive investment climate** is another pressing issue for the Government of Kosovo, as stated by ERA: "Among the key challenges for Kosovo are

³⁴ European Parliament, "European Parliament resolution of 25 March 2021 on the 2019-2020 Commission Reports on Kosovo (2019/2172(INI))", 25 March 2021, Point 100, available at: https://www.europarl.europa.eu/doceo/document/TA-9-2021-0113_EN.html.

³⁵ *Ibid*, Point 101.

³⁶ Official Journal of the European Union, *STABILISATION AND ASSOCIATION AGREEMENT between the European Union and the European Atomic Energy Community, of the one part, and Kosovo, of the other part*, March 2016, Article 107.

³⁷ *Ibid*, Article 9.

³⁸ European Union, "Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-Accession assistance (IPA III)", 20 September 2021, [Ar.3-2\(d\)](#).

the need to raise its production base, develop export capacities and close the competitiveness gap”³⁹. The country suffers from widely absent Foreign Direct Investment, innovation or competitiveness. Indeed, Kosovo does not brew the most compelling climate future-looking public or private investments, with a legal framework which does not promote innovative Research and Development, and with digitalization (digital economy) still lagging behind. Moreover, inexistent cooperation between the private sectors further hinders transfer of knowledge. This matches IPA III’s specific objective or key performance indicator of cultivating access to digital technologies and strengthening research, technological development and innovation will be key for Kosovo⁴⁰. The 2019-2021 Economic Reform Program (ERP), as the economic governance policy framework put forth by the government, defines two key targets: a rules-based fiscal policy (enabling stability of public finances and supporting capital investments and tax incentives for domestic producers), and a set of structural reforms (supporting the competitiveness of economic sectors, and assuring economic growth is inclusive and welfare-enhancing)⁴¹. On the business front of competitiveness, the large informal sector generates unfair labor competition nationwide, made worse by the lack of a reformed Generalized Inspection Procedure.

Infrastructure is also a pressing issue. Notably in it being usually the field which less absorbs external funds given long given periods for implementation and large labor costs. Transport is an underdeveloped sector in Kosovo, with inadequate road maintenance and poor conditions of railways. Once adequate transport infrastructure standards are met, Kosovo can focus on promoting smart and sustainable transport, as per IPA III’s thematic priorities⁴².

Last but not least, **Good Governance and the Rule of Law** is a pressing issue area. ERA argues that “One of the biggest challenges for Kosovo is the rule of law sector with a number of recurring issues such as independence of judiciary, corruption”⁴³. A specific objective defined by the IPA III official text is “to strengthen the rule of law, democracy, the respect of human rights and fundamental freedoms, including through promoting an independent judiciary, reinforced security and the fight against corruption and organized crime”⁴⁴. As well as to “reinforce the effectiveness of public administration and to support transparency, structural reforms and good governance at all levels, including in the areas of public procurement and State aid”⁴⁵. Ensuring a proper functioning of the institutions is crucial to solidify progress in other sectors and boost the state-citizen bond.

Inevitably, a key pressing issue when it comes to Kosovo’s European path is good neighborly relations, with the Dialogue on normalization of relations with Serbia remaining stagnant and ineffective. Thus **cross-border cooperation** as stated in the IPA III objectives⁴⁶ is lacking and could be an area to progress – perhaps by betting on guaranteed neighboring partners such as Albania. For instance, an ongoing cross-border cooperation project

³⁹ Official Journal of the European Union, *STABILISATION AND ASSOCIATION AGREEMENT between the European Union and the European Atomic Energy Community, of the one part, and Kosovo, of the other part*, March 2016, Article 7.

⁴⁰ European Union, “Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-Accession assistance (IPA III)”, 20 September 2021, [Art.3-2\(p\)](#).

⁴¹ Republic of Kosovo, *ECONOMIC REFORM PROGRAMME (ERP) 2019-2021*, January 2019.

⁴² European Union, “Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-Accession assistance (IPA III)”, 20 September 2021, [Article 3-2\(n\)](#).

⁴³ Republic of Kosovo, *Kosovo–EU High Level Dialogue on Key Priorities – European Reform Agenda (ERA)*, November 2016, pg.6.

⁴⁴ European Union, “Regulation (EU) 2021/1529 of the European Parliament and of the Council of 15 September 2021 establishing the Instrument for Pre-Accession assistance (IPA III)”, 20 September 2021, [Article 3-2\(a\)](#).

⁴⁵ *Ibid*, [Article 3-2\(b\)](#).

⁴⁶ *Ibid*, [Article 3-2\(f\)](#).

supporting water and waste management is underway between Kosovo and Albania⁴⁷, funded by the IPA. Furthermore, mobility programmes for employment, social or cultural exchanges (notably for youth) should be sought, as well as best practices exchanges to encourage the development of a digital economy and society in Kosovo.

Yet, arguably, the most pressing issue is for the Government to effectively absorb allocated EU funds and successfully implement reforms or reach targets – citing the European Parliament resolution on the 2019-2020 Commission Reports on Kosovo: “whereas Kosovo benefited from the IPA II, with a total indicative allocation of EUR 602.1 million for 2014-2020, and whereas Kosovo needs to further improve its absorption capacity in this regard”⁴⁸.

2. Recommendations for the Government of Kosovo and for the European Commission

The Instrument for Pre-Accession Assistance is now in its third iteration, following IPA I under the 2007-2013 multiannual financial framework and IPA II under the 2014-2020 multiannual financial framework. For the current installment covering the 2021-2027 period, the EU allocated EUR 14.2 billion euros to the Western Balkan countries. After significant reprogramming efforts were undertaken in the last years to respond to the urgent Covid-19 needs, now is the time for countries to refocus and take the funds to implement positive change, structural reforms and reach progress in key priorities. The Government of Kosovo does not have a very successful absorption rate of external aid funds, rendering implementation weak and sustainability very poor. This section proposed recommendations, some directed at the European Commission and some directed at the Kosovar government, as well as one aimed at both, all looking into how to use allocated aid/funds in the most optimized way and how to support project that advance Kosovo’s EU prospects. The methodology used for assigning the institutional actor to follow-up on the recommendations is those which entail local action or ownership, and those which require external oversight and coordination.

This Policy Analysis argues that the sectors in which the Government and Commission’s attention is most required pertain the aforementioned pressing issues demarcated according to available Kosovar progress datasets and the official IPA guidelines on fund allocation. It additionally argues that what exactly in each sector to target must follow an extensive locally-conducted needs-assessment, and an external assessment on absorption capacity per sector.

2.1. Willing leadership - directed at the Government of Kosovo

The need for strong and committed political leadership is fundamental when seeking structural change based off foreign standards and criteria. Perhaps most pressing, is the need for the governing national authorities, in this case Prime Minister Albin Kurti’s cabinet, to conduct a needs-assessment at the beneficiary country level. This will allow for IPA III deliverables the EU sets for Kosovo to match real demands and updated needs that, in turn, encourages local authorities to best implement reforms or effectively seek efforts since they will contribute to ending verified needs defined locally and not externally. Corruption and political interference severely undermine the Government’s will and mandate. As such, unwavering governance committed to EU requirements and IPA targets is crucial, led by active institutions who should conduct donor coordination exercises at the beneficiary level, and notably on technical components of IPA III deliverables.

⁴⁷ European Commission, ‘IPA III Programme Statement – Neighbourhood and the World’, no date, pg. 1288, available at https://ec.europa.eu/info/sites/default/files/about_the_european_commission/eu_budget/programme_statement_-_ipa.pdf [Accessed 5 December 2021].

⁴⁸ European Parliament, ‘Motion for a European Parliament resolution on the 2019-2020 Commission Reports on Kosovo (2019/2172(INI))’, 3 March 2021, available at: https://www.europarl.europa.eu/doceo/document/A-9-2021-0031_EN.html.

2.2. Measurable targets that are country-specific – directed at the European Commission

Although IPA official documents and overall strategy defines priorities and objectives, these are often too vague or unrealistic. Targets must be clearer and more measurable, and timelines must be more flexible to allow for changes in deliverables and priority throughout the 7 years of implementing and reporting. In other words, from when an IPA-funded project is designed in 2021 until it is ideally fully implemented in 2026, a flexible approach should be guaranteed, especially due to the initial vague project objectives. Certainly, a key element to consider in terms of EU external aid intake is that defining clear and tangible quantitative targets can do much more than simply injecting funds into vague objectives. A means to achieve this could be to propose projects that follow the needs-assessment report, to therein boost local/beneficiary ownership of the needs identified and projects devised to tackle them. Better identification of needs allows for better identification of objectives and outputs, which naturally allows for a clearer and more measurable targets. As such, special attention must be paid to project logframes, sequencing of operations and systematic monitoring in order to ensure sustainability. While the above would be more easily accomplished at a regional level, a best practice to bypass imprecise and indefinite targets is to focus on the country-level. For this, the EU should put forth country-specific lessons learned on each project with regards to implementation and/or best practices, which potentially feeds a more general database with lessons learned from past projects. The database could furthermore be grouped according to the IPA priority sectors, and this exercise allows to pinpoint successes and shortcomings.

2.3. Proper local ownership and oversight of targets - directed at the Government of Kosovo

The most common concern with implementation of external aid, including the IPAs, is lack of transparency in how the money is applied by the Government. For this reason, involving other relevant stakeholders is fundamental to ensure proper oversight of allocated funds received from institutions and their usages, the role of oversight of IPA funds is exercised through annual on regulations. Additionally, civil society organizations should participate in the supervisory process to assure inclusivity, transparency and evidence-based results, and often raise questions on usage of EU financial instruments. At the level of the Assembly of Kosovo (Parliament), MPs should exchange and adopt best practices on financial supervision of external funds following proper information sessions on the IPA and its implementations reports over the last multiannual financial periods. Member of the Committee for European Integration would be interesting candidates among the MPs to follow dedicated info-sessions and/or trainings on overseeing IPA funds. Exchanges over best practices and lessons learned should potentially also include MPs from other IPA beneficiary countries, such as Albania. This proposal is aligned with the European Parliament's March 2021 resolution on the 2019-2020 Commission Reports on Kosovo, which "calls for increased transparency and closer parliamentary scrutiny of the funds allocated to Kosovo"⁴⁹.

2.4. Adequate external monitoring and oversight of targets - directed at the European Commission

In line with the above recommendation, so does the European Parliament's March 2021 resolution on the 2019-2020 Commission Reports on Kosovo equally "ask the Commission to better monitor the use of EU funds and report any misuse"⁵⁰. MEPs call for the allocation of IPA III to be "discontinued in cases of systemic threats to the Union's interests and values; (...) reiterates that the scale of financial assistance should match the goal of Kosovo's European

⁴⁹ European Parliament, "European Parliament resolution of 25 March 2021 on the 2019-2020 Commission Reports on Kosovo (2019/2172(INI))", 25 March 2021, Point 100.

⁵⁰ *Ibid*, Point 100.

perspective”⁵¹. As such, funds granted to Kosovo should bear in mind its absorption capacity and real needs, as well as its standing along the EU integration path and insofar fulfillment of targets and EU acquis harmonization. A key means the EU can ensure external oversight of allocated funds by prompting the involvement of civil society organizations (CSOs) is key to financial oversight good practices. Article 6(5) of the Legal provisions of the IPA III asks that the Commission ensure CSOs “are duly consulted and have timely access to relevant information to allow them to play a meaningful role during the design and implementation of programmes and the related monitoring processes”⁵².

2.5. Good project sequencing and continuity of projects - directed at the Government of Kosovo

Very much linked to ensuring local ownership of effective IPA III funds’ implementation is the need for the beneficiary countries’ government, in this particular case the Government of Kosovo, to guarantee good sequencing and continuity of projects. IPA funded projects are often not sustainable given lacking follow-up efforts. In other words, the Government must establish sound bureaucratic paperwork and permits, trained personnel and enabling legal framework to sustain EU-funded projects until full-fledged completion. Only this way can we render contracts and respective actions more effective, and avoid delays or frustrations when a new programming multiannual framework starts, be it on the donor or on the Government’s side. Appropriate follow-up is the only way to match responsibilities tied to contracted activities, and effectively deliver on contracted deliverables to the benefit of the Republic of Kosovo, especially since many deliverables can only be assessed years after the contract ended (i.e. impact of policy papers, protocols, reforms or new procedures).

The human resources component is key to this recommendation. Insufficient financial and human resources are often allocated to the institutions implementing external aid, including IPA funds. On top of that, excessive administrative burden and weak coordination lead to delays and frustrations on project completion and reporting. To combat this negative component, this paper recommends dedicated personnel be specifically trained in implementing external aid or in achieving the type of project at hand (i.e., infrastructure, study, reform). In parallel, the skilled personnel should deliver regular updates to the donor, such as perhaps info-sharing virtual sessions to share progress and seek guidance if needed. Furthermore, should the administrative burden be too high, decentralizing to simplify management requirements is always a good option too.

2.6. Enable better external aid absorption rates by - directed at the Government of Kosovo and at the European Commission

The absorptive capacity of a beneficiary entity (or state) concerns the ability to use additional aid without pronounced inefficiency of public spending and without induced adverse effects⁵³. As such, the absorptive capacity limit is the point when a government can no longer efficiently apply aid and deliverables will start to suffer. Factors which hamper a country’s external aid absorption rate are, arguable primarily, government instability. Sociopolitical instability affects the capacity for state institutions to maneuver the heavy administrative load linked to allocated fund, for instance from the European Commission. Building off the previous recommendation, a lack of skilled or trained staff means technical and human constraints. The Governance and Social Development Resource Centre also flags sector-specific constraints, citing the education

⁵¹ *Ibid*, Point 102.

⁵² EU Monitor, “Legal provisions of COM(2018)465 - Instrument for Pre-accession Assistance (IPA III)”, 15 September 2021, Article 6(5), available at: https://www.eumonitor.eu/9353000/1/j4nvhdscs8bljza_j9vvik7m1c3gyxp/vkp7fn2mofwh.

⁵³ K4D, “Aid absorption: Factors and Measurements”, 9 March 2021, available at: https://gsdrc.org/wp-content/uploads/2018/03/Aid_absorption.pdf, pg.2.

example in that factor such as the “pre-existing educational attainment and health conditions of a population; per capital income levels; percentage of population under the age of 15; urban population and infrastructure; human and capital resources” are recipient-side factors influence the absorptive capacity of aid⁵⁴. This means that a country’s absorption rate is dependent on national and/or local variants, such as education level, employment rates and capital flows, to name a few. The silver lining is that constraints can potentially be improved by means of reforms and targeted policies.

However, what is equally important to acknowledge is that optimizing one’s absorptive capacity is also a task for the donor, who should undertake a thorough needs-assessment and matching assessment of the beneficiary country’s capacity to absorb the intended aid and implement the proposed projects. Bypassing this stage would unmistakably upset the delivery of aid by the donor.⁵⁵ The European Commission’s 2020 Country Report for Kosovo even highlights this requirement, in stating that “Coordination, planning and monitoring of donor assistance as well as project preparation needs to be further strengthened, in order for Kosovo to effectively benefit from opportunities under the next phase of the Instrument for Pre-Accession (IPA III)”⁵⁶.

CONCLUDING REMARKS

The Instrument for Pre-Accession (IPA) is an external action tool of the European Commission which allocates funds to Enlargement countries, in other words candidate and potential candidate countries. It allows the beneficiary countries to prepare for eventual participation in EU cohesion policy after accession - established in 2007-2013 and repeated for 2014-2020 and now 2021-2027, the IPA seeks to help enlargement countries absorb EU cohesion funding more effectively once full-fledged Member States. This EU investment dedicated to the six Western Balkans boosts their reform progress and harmonizes their standards to those of the EU – it therefore seeks to bolster domestic progress in the region, but also to build up future Member States of the EU as a long-term strategy for internal EU cohesion.

Succeeding IPA I and IPA II, the IPA III was devised with a more strategic and policy-driven approach, which matches the Enlargement Strategy’s emphasis on fundamentals, and principally ensures continuity of previous IPA funds urgently redirected due to the pandemic outbreak that are now centered towards political, institutional, social and economic reforms. Kosovo’s allocation within the total amount of EUR 14.2 billion in for the coming 7 years is expected to be dedicated to pressing areas related to structural reforms and digital and green transitions. Looking specifically at the case of Kosovo, we note that

Following a quick look at other EU partner countries’ aid absorption rates, we noted shortcomings also in Albania and Serbia when it comes to political will to reform institutions, sufficient budget and staffing, and proper coordination securing project sustainability. The European Commission, and beneficiary countries alike, must stop accepting lacking, weak or non-existent implementation when it comes to allocated donor funds. (Re)action is needed, as put forth in the recommendations section, to improve Kosovo’s shortcomings on effectively implementing the donated external aid and to improve the Commission’s management and oversight of the allocated funds. Education and Training, Employment, market economy competitiveness, Infrastructure, Good Governance and the Rule of Law, and finally Cross-border cooperation are arguably among the most pressing issues the country needs action on.

⁵⁴ *Ibid*, pg.7.

⁵⁵ *Ibid*, pg.7.

⁵⁶ European Commission, “COMMISSION STAFF WORKING DOCUMENT Kosovo* 2020 Report”, 6 October 2021, pg.10.

At a time when the official terminology used to name the IIPA III beneficiary countries puts the Republic of Kosovo at a clear disadvantage vis-à-vis fellow enlargement countries, this paper highlights the need for the Kosovar Government to step up. NPISAA, ERA and ERP reports show implementation rates are far too low when it comes to structural reforms and EU acquis harmonization, and that obstacles persist on correctly using and applying received donor funding. Important steps must be taken to correct this repeated behavior. Notably the suggested actions on unwaveringly politically committing to deliverables, taking local ownership of funds by clearly defining usage according to assessed needs, ensuring good sequencing between financing periods for sustainability of results, and assigning proper human and material resources to projects. Running in parallel to this, also the European Commission has an important role to play in better effectiveness of IPA funds, in defining country-specific needs, targets and follow-ups, and in ensuring good oversight by local, regional and even external actors. In sum, accepting non-implementation as standard practice must be stopped given the real need to implement all or at least most of the IPA or SAA commitments.

We look forward to the Government of Kosovo and the European Commission, together, learning from past mistakes and best practices during IPA I and II in order to ensure a smoother and more effective delivery of the IPA III funds. There are only gains to be won by putting in the extra efforts for assessment, coordination, staffing, oversight and clarity.

Policy Analysis

Policy Analysis in general is a policy advice paper which particularly aims to influence the key means through which policy decisions are made in both local and central levels of government. The purpose of Policy Analysis is to address, more in-depth, a particular problem, to examine the arguments related to a concerned policy, and to analyze the implementation of the policy. Through Policy Analysis, Group for Legal and Political studies seeks to stimulate wider comprehensive debate on the given issue via presenting informed policy-relevant choices and recommendations to the key stakeholders and parties of interest.



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